

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Ira Saktor
Advisor:	doc. Ing. Vladimír Benáček, CSc.
Title of the thesis:	Comparative Analysis of Determinants of Trade in Services: Cases of Ireland and United Kingdom

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

The thesis examines determinants of trade in services utilizing a gravity model of trade (GM). Author concentrates on trade of Ireland and United Kingdom. Value added of the thesis is that author estimates the model on disaggregated data.

Author shows that he has handled standard econometric techniques related to estimation of micro-founded gravity models. Another interesting point is that he has estimated the model via R program while all “gravity” codes are primarily written for STATA. Therefore author had to cope with PPML coding which he apparently managed. The thesis also offers empirical contribution when the author estimated model on disaggregated data. Taking into account all these characteristics the thesis fulfills demands on bachelor thesis and I grade it as **excellent**.

However the thesis suffers from several weaknesses which would prevent the thesis being graded excellent on master level. I distinguish the comments into two parts: 1) theoretical background of the model and 2) minor comments (typos, literature, etc.).

The author should be much more transparent whether he follows standard micro-founded gravity model or not next time. In the introduction he mentions several key papers related to the micro-founded GM however the estimated specification and primarily the discussion related to the specification shows that he departs from this stream.

Any inclusion of a variable must be based on proper theoretical reasoning if we follow micro-founded stream. Therefore the variable is either properly directly derived from the optimization or it is very often considered as a part of trade barriers factors. Therefore there must be similar reasoning when author wants to include variables such as population, ERDI, migration flows etc. This reasoning is unfortunately missing. Another solution can be that author transparently claims that he departs from the micro-founded stream and explains why and in which sense. Then a reader would not be lost because the literature review and also attempts to cope with multilateral resistance terms indicate that he follows micro-founded papers. But he does only partly.

Second group of comments relates to several minor issues. Some of them are also more discussion points than critical remarks.

- Use standard citation style next time. Citations when you include also the name of the paper into the text is strange: e.g.” see *Trade in Services: Does Gravity Hold? A Gravity Model Approach to Estimating Barriers to Services Trade (Walsh, 2006)*”. Just “see Walsh (2006)” would be sufficient.
- There is small misunderstanding about the paper of Anderson and Van Wincoop. Your bibliography reference is: Anderson, J. E., & Van Wincoop, E. (2001). Gravity And Gravitax: A Solution To The Border Puzzle. *American Economic Review*, 170-192. But in 2001 they published NBER WP paper (<http://www.nber.org/papers/w8079.pdf>). The version from AER was published in 2003 (<https://www.aeaweb.org/articles?id=10.1257/000282803321455214>)
- I would also include the Baldwin, Taglioni (2006) paper into the chapter 2.1. This paper is the key one when we talk about dummy approach to MRT.
- On page 4 you state that “*The problem with multilateral resistance terms as introduced by Anderson and Van Wincoop is that they are difficult to estimate. Thankfully, Feenstra (2002) shows that it is possible to use country pair fixed effects to eliminate the possible bias caused by omission of Multilateral Resistance Terms.*”

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I understand their work and the relationship to dummy approach in a sense that AW(2003) estimated MRT but they tried to approximate it via existing variables. The dummy approach is more transparent because you do not have to construct artificial variable. So the outcome of AW is not only that it is hard but also you can do it... Dummies just make it easier.

- Author does exclude several variables because of multicollinearity. Another proposal is that you simply make principal components of those variables and you do not have to exclude them. Nice application is e.g. in Francois & Manchin (2013).
- One problem related to the migration effect is that the specification includes only one part of the institutional effects (only corruption perception). The effects of migration would be less biased when also other measures of institutions would be included because then author would get rid of the possible effects of good state institutions on migration flows (good institutions attract migration). It would also generally help to have more robust results related also to corruption variable. Francois & Manchin (2013) is also nice example in this respect.
- There are also several typos. Such as the title of the chapter 4.2. or the first line of the first paragraph on page 39. Author writes that “*Our calculations suggest that Ireland exports 0.22% less Insurance services to countries with higher corruption perception index.*” However, the interpretation below indicates that author wanted to write that Ireland exports **more** insurance...

Francois, J., & Manchin, M. (2013). Institutions, Infrastructure, and Trade. *World Development*, 46, 165–175. doi:10.1016/j.worlddev.2013.02.009

SUMMARY OF POINTS AWARDED (for details, see below):

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CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	16
<i>Methods</i> (max. 30 points)	26
<i>Contribution</i> (max. 30 points)	30
<i>Manuscript Form</i> (max. 20 points)	13
TOTAL POINTS (max. 100 points)	85
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: *Michal Paulus*

DATE OF EVALUATION: 25.5.



Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong Average Weak
20 10 0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong Average Weak
30 15 0

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong Average Weak
30 15 0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong Average Weak
20 10 0

Overall grading:

TOTAL POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě